

Message Text

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ACTION EB-04

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FM AMEMBASSY ROME

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INFO AMEMBASSY BONN

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USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 7847

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: RESULTS OF CENTRAL BANK GOVERNORS MEETING AT BASLE RE
CREDITS TO ITALY

PASS TREASURY AND FRB

REF: (A) EC BRUSSELS 4733 (B) ROME 7357 NOTAL

(C) STATE 110938 NOTAL (D) ROME 7739

(E) ROME 7784

1. SUMMARY. BOI DIRECTOR GENERAL OSSOLA ON MAY 13 IN

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DISCUSSIONS WITH TREASATT CONFIRMED RESULTS OF WEEKEND

MEETING OF CENTRAL BANK GOVERNORS AT BASLE ALONG LINES REPORTED REF (A). HE SAID THAT: (1) NO NEW DECISIONS WERE TAKEN REGARDING FUTURE USE OF FRB SWAP, (2) SHORT-TERM CREDIT OF 400 MILLION UNITS OF ACCOUNT (U/A) FROM EC AND \$600 MILLION STANDBY FROM BIS WERE AGREED TO AS "BRIDGE" FINANCING PENDING EVENTUAL RECEIPT OF MEDIUM-TERM CREDITS FROM EC, (3) IMF STANDBY NEGOTIATIONS WERE MOVING FORWARD BUT A STANDBY WOULD NOT LIKELY BE AGREED TO UNTIL AFTER JUNE 20 ELECTIONS, AND (4) BOI WAS WATCHING CLOSELY EXCHANGE MARKET AND DOMESTIC LIQUIDITY EFFECTS OF NEW PRIOR DEPOSIT REQUIREMENT. END SUMMARY.

2. FRB SWAP:

OSSOLA SAID THAT ITALIANS HAD EXPLORED POSSIBILITY OF INCREASE IN FRB SWAP WITH FRB CHAIRMAN BURNS AND NEW YORK FED PRESIDENT VOLCKER. BOI REPS HAD EVEN MENTIONED POSSIBILITY OF PROVIDING GOLD COLLATERAL. HOWEVER, NOTHING DEFINITE WAS DECIDED WHICH WOULD CHANGE PRESENT SWAP ARRANGEMENTS, ALTHOUGH BOTH SIDES AGREED TO CONSULT FURTHER DEPENDING UPON DEVELOPMENTS IN ITALY'S FOREIGN EXCHANGE POSITION. OSSOLA THOUGHT THAT BOI WOULD NOT MAKE FURTHER EFFORT TO SEEK INCREASE IN \$750 MILLION SWAP LINE NOW AVAILABLE; AND THAT IT WAS LIKELY THAT WHEN SECOND DRAWING OF \$250 MILLION CAME DUE IN JUNE, BOI WOULD MAKE NEW DRAWING TO REPAY IT.

3. EC AND BIS SHORT-TERM CREDITS:

OSSOLA CONFIRMED THAT EC CENTRAL BANK GOVERNORS HAD AGREED TO MAKE AVAILABLE "AUTOMATIC" DEBTOR QUOTA OF 400 MILLION U/A FOR ITALY AND THAT BIS HAD AGREED TO \$600 MILLION SHORT-TERM "STANDBY" CREDIT. BOTH OF THESE CREDITS WERE CONSIDERED TO BE "BRIDGE" FINANCING. ALTHOUGH EC DEBTOR QUOTA WAS AUTOMATIC, IT WILL REQUIRE DISCUSSION OF ITALIAN CASE AT LEAST BY EC MONETARY COMMITTEE; THIS WILL TAKE PLACE AT COMMITTEE'S MAY 13TH SESSION. EC DECISION TO GRANT DEBTOR QUOTA ONLY, BUT NO ADDITIONAL 1.5 BILLION U/A "CREDITOR QUOTA", WAS APPARENTLY BASED ON DESIRE TO ALLOW TIME FOR GREATER DISCUSSION OF ITALIAN CASE BEFORE PROCEEDING WITH LARGER AMOUNT OF SHORT-TERM CREDIT. BIS CREDIT TAKES FORM OF CONFIDENTIAL

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BILATERAL STANDBY AGREEMENT AND DOES NOT INVOLVE ANY GOLD COLLATERAL. OSSOLA WAS NOT CERTAIN TO WHAT EXTENT, OR HOW SOON, BOI MIGHT DRAW UPON BIS STANDBY.

4. EC MEDIUM-TERM CREDIT:

OSSOLA THOUGHT THAT ABOUT \$1.1 BILLION STILL REMAINED THEORETICALLY AVAILABLE FROM EC UNDER TWO MEDIUM-TERM CREDIT FACILITIES. THIS CONSISTED OF EC MEDIUM-TERM

CREDITS OF ABOUT \$500 MILLION AND UNUSED EC JOINT BORROWING AUTHORIZATION OF ABOUT \$600 MILLION. OSSOLA SAID THAT HE DID NOT KNOW WHEN ITALY MIGHT FORMALLY ASK FOR ANY SUCH MEDIUM-TERM ASSISTANCE. IN ANY CASE, TREASURY MINISTER COLOMBO WOULD DISCUSS ITALIAN SITUATION WITH HIS EC COLLEAGUES AT MAY 17TH MEETING OF EC MINISTERS OF FINANCE.

5. IMF STANDBY NEGOTIATIONS:

OSSOLA SAID THAT NEGOTIATION OF SDR 450 MILLION STANDBY WAS MOVING FORWARD. ITALIANS WOULD HAVE ANSWERS READY TO AT LEAST SOME OF IMF STAFF QUESTIONS WITHIN NEXT FEW DAYS. HOWEVER, HE SAID THAT FRB CHAIRMAN BURNS HAD INDICATED TO HIM THAT STANDBY NEGOTIATIONS WOULD NOT BE COMPLETED BEFORE ITALIAN ELECTIONS. THIS SUGGESTED THAT IT WOULD BE SUMMER OR EARLY FALL BEFORE STANDBY AGREEMENT WOULD BE REACHED.

6. EFFECT OF PRIOR DEPOSITS ON EXCHANGE MARKET AND ON LIQUIDITY:

OSSOLA WAS REASONABLY SATISFIED WITH EFFECTS ON EXCHANGE MARKET OF PRIOR DEPOSITS, AND OTHER RECENT MEASURES. HE DESCRIBED PRIOR DEPOSIT AS VERY DRASTIC MEASURE WHICH WOULD ABSORB 3500 BILLION LIRE OF LIQUIDITY. HE ADMITTED THAT MATURING OF MORE THAN 2000 BILLION LIRE IN TREASURY BILLS HELD BY COMMERCIAL BANKS DURING MAY WOULD PROBABLY RESULT IN SOME OFFSETTING OF LIQUIDITY ABSORPTION. IN FACT HE WOULD NOT BE UNHAPPY IF BANKS PURCHASED ONLY ABOUT 1000 BILLION LIRE IN NEW TREASURY BILLS, POINTING OUT THAT RECENT TAX MEASURE WHICH PROVIDES FOR SELF-ASSESSMENT AND CONCURRENT PAYMENT OF TAXES ON NON-WAGE PERSONAL INCOMES WOULD ABSORB AT LEAST 1000 BILLION LIRE IN LIQUIDITY DURING THIS SAME TIME PERIOD. VOLPE
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